

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Clare County Road Commission	County Clare
Audit Date 9/30/04	Opinion Date 1/27/05	Date Accountant Report Submitted to State: 3/10/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

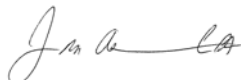
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson & Decker, P.C.			
Street Address P.O. Box 746	Digitally signed by James M. Anderson, CPA DN: cn=James M. Anderson, CPA, c=US, o=Anderson & Decker, PC, email=jma@m33access.com Date: 2005.03.10 14:18:31 -05'00'	City Roscommon	State MI
Accountant Signature 		ZIP 48653	Date 3/10/05

**CLARE COUNTY ROAD COMMISSION
FINANCIAL REPORT
SEPTEMBER 30, 2004**

CLARE COUNTY

BOARD OF COUNTY ROAD COMMISSIONERS

Donald Armentrout
Commissioner

Richard Haynak
Commissioner

Tim Haskin
Commissioner

Steven R. Stocking
Engineer-Manager

Chad M. Hathcock
Finance Director

Kathy Duynslager
Board Secretary

CLARE COUNTY ROAD COMMISSION

TABLE OF CONTENTS

PAGE

Independent Auditors' Report	1-2
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	4
Statement of Activities	5
Balance Sheet	6
Reconciliation of the Balance Sheet Fund Balance to the Statement of Assets	7
Statement of Revenues, Expenditures and Changes in Fund Balance	8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	9
Notes to Financial Statements	10-21
Required Supplemental Information:	
Statement of Revenues and Other Financing Sources- Budgetary Comparison Schedule	22
Statement of Expenditures - Budgetary Comparison Schedule	23
Supplemental Schedules:	
Analysis of Fund Balances	24
Analysis of Revenue and Other Financing Sources	25
Analysis of Expenditures	26
Report on Compliance and on Internal Control over Financial Reporting based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	27-28



Anderson & Decker, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

245 Lake Street • P.O. Box 746 • Roscommon, MI 48653
(989) 275-8831

INDEPENDENT AUDITORS' REPORT

January 27, 2005

Board of County Road Commissioners
Clare County Road Commission
Harrison, MI 48625

We have audited the accompanying basic financial statements of the Clare County Road Commission of the County of Clare, Michigan as of and for the year ended September 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Clare County Road Commission as of September 30, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued a report dated January 27, 2005, on our consideration of the Clare County Road Commission's internal control structure and a report dated January 27, 2005, on its compliance with laws and regulations.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Clare County Road Commission. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

A handwritten signature in cursive script, appearing to read "J. Anderson".

ANDERSON & DECKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CLARE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2004

The Road Commission as a Whole

Revenues were up 10% in 2004 compared to the prior year due to the one time trailer fee program and increased township contributions. Expenditures were also up 7% due to increased health care, oil and steel costs. The Road Commission was still able to add \$104,000 to its fund balances. For 2005, a 2.8% decrease in the Motor Transportation Fund Revenue is forecast due to a drop in trailer license fees. Township contributions on construction projects are expected to remain the same.

Federal and State Funded Road Projects

The Road Commission completed the Mannsiding Road project and Eight Point Lake Road paving project using Federal STP, Federal D, and State TEDF-D funds earmarked for roads functionally classified as rural major collectors. Safety Funds were used to improve the Clare Ave./Dover Rd. intersection.

Township Contributions

During 2004 the Road Commission received township contributions totaling over \$1,000,000. The Road Commission used the contributions as matching funds of various road projects throughout the county. Major projects were Bringold Avenue in Lincoln and Greenwood Townships; and Harding Avenue between Muskegon Road and Claroskee Road in Summerfield Township. The latter project completed a paved route between M-61 and M-55. Another major paving project was on Maple Grove Road in Surrey Township.

Capital Assets

The Road Commission invested \$769,000 in capital assets during 2004, which included two new road graders, two new tandem trucks and new accounting computer software.

Next Year's Forecast

During 2005 the Road Commission plans to: maintain 133 miles of state trunkline road, complete a construction schedule with \$2.7 million dollars in budgeted expenses, purchase two new tandem trucks and other equipment to keep its fleet up to date, and maintain the 1,010 miles of primary and local roads county wide.

Closing

This financial report is intended to provide our citizens, taxpayers and the general public with a general overview of the road commission's finances and how they are being spent.

CLARE COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004

ASSETS

Cash	\$ 480,583
Investments	347,040
Accounts receivable	
Michigan Transportation Fund	652,196
State-Other	113,840
Due on County Road Agreements	104,482
Sundry Accounts	5,608
Inventories	
Road Materials	252,976
Equipment Parts and Materials	170,259
Capital Assets (Net of Accumulated Depreciation)	<u>25,236,266</u>
Total Assets	<u>27,363,250</u>

LIABILITIES

Current Liabilities	
Advances from MDOT	218,121
Bonds Payable	390,000
Installment Purchase Agreements Payable	12,239
Non Current Liabilities	
Bonds Payable	1,040,000
Installment Purchase Agreements Payable	98,633
Vested Employee Benefits Payable	<u>164,187</u>
Total Liabilities	<u>1,923,180</u>

NET ASSETS

Investment in Capital Fixes Assets	
Net of Related Debt	23,695,394
Restricted for County Roads	<u>1,744,676</u>
Total Net Assets	<u>\$ 25,440,070</u>

The Notes to Financial Statements are an integral part of this statement.

CLARE COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Program Expenses	
Primary Road Maintenance	\$ 708,497
Local Road Maintenance	1,691,665
State Trunkline Maintenance	805,106
Net Equipment Expense	(180,281)
Net Administrative Expense	268,444
Infrastructure Depreciation	1,494,913
Compensated Absences	27,690
Interest Expense	<u>89,427</u>
Total Program Expenses	<u>4,905,461</u>
Program Revenue	
Federal Grants	790,508
State Grants	4,090,537
Contributions from Local Units	1,037,517
Charges for Services	746,077
Investment Earnings	<u>8,461</u>
Total Program Revenue	<u>6,673,100</u>
Net Program Revenue	<u>1,767,639</u>
General Revenue	
Gain on Equipment Disposal	<u>169,888</u>
Total General Revenues	<u>169,888</u>
Change in Net Assets	1,937,527
Net Assets	
Beginning of Year	<u>23,502,543</u>
End of Year	<u><u>\$ 25,440,070</u></u>

The Notes to Financial Statements are an integral part of this statement.

CLARE COUNTY ROAD COMMISSION
BALANCE SHEET
SEPTEMBER 30, 2004

	<u>Governmental Fund Type</u>
	<u>General Operating</u>
ASSETS	
Imprest cash	\$ 250
Cash demand and time deposits	480,333
Investments	347,040
Accounts receivable:	
Due from state	766,036
Due from townships	104,482
Sundry	5,608
Inventories	<u>423,235</u>
Total Assets	<u><u>\$ 2,126,984</u></u>
LIABILITIES AND FUND EQUITY	
Advances from governmental units	<u>\$ 218,121</u>
Total Liabilities	<u>218,121</u>
Fund Equity:	
Fund Balance:	
Undesignated	<u>1,908,863</u>
Total Fund Equity	<u>1,908,863</u>
Total Liabilities and Fund Equity	<u><u>\$ 2,126,984</u></u>

The Notes to Financial Statements are an integral part of this statement.

CLARE COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO
THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Total governmental fund balance	\$ 1,908,863
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Amounts reported for governmental activities in
the statement of new assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	25,236,266
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Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	<u>(1,705,059)</u>
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Net assets of governmental activities	<u><u>\$ 25,440,070</u></u>
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The Notes of Financial Statements are an integral part of this statement.

CLARE COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
SEPTEMBER 30, 2004

	<u>Operating Fund</u>
Revenues	
Federal Grants	\$ 790,508
State Grants	4,090,537
Contributions From Local Units	1,037,517
Changes for Services	725,111
Interest and Rents	8,461
Other Revenue	<u>190,854</u>
Total Revenues	<u>6,842,988</u>
Expenditures	
Public Works	5,971,251
Net Capital Outlay	275,876
Debt Service	<u>490,865</u>
Total Expenditures	<u>6,737,992</u>
Excess of Revenues Over (Under) Expenditures	104,996
Fund Balance-October 1, 2003	<u>1,803,867</u>
Fund Balance-September 30, 2004	<u><u>\$ 1,908,863</u></u>

The Notes to Financial Statements are an integral part of this statement.

CLARE COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Net Change in fund balance-total governmental funds	\$ 104,996
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Amounts reported for governmental activities
in the statement are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities.	1,458,783
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Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the statement of net assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets.	401,438
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense).	<u>(27,690)</u>
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Change in net assets of governmental activities.	<u><u>\$ 1,937,527</u></u>
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The Notes to Financial Statements are an integral part of this statement.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Clare County Road Commission conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant policies.

REPORTING ENTITY AND FUND TYPE - The County Road Commission's financial activity is considered a Governmental Special Revenue Fund Type and a reporting agency of Clare County in accordance with the established criteria in Statement No. 14, "The Financial Reporting Entity", issued by the Governmental Accounting Standards Board.

BASIS OF PRESENTATION--GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (ie., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all the Clare County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

BASIS OF PRESENTATION--FUND FINANCIAL STATEMENTS

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING--GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year of which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004
(CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS/BASIS OF ACCOUNTING--FUND FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

INVENTORY

Inventories consisting of equipment parts and supplies of \$170,259 and road materials of \$252,976, are stated at cost based on the first in - first out (FIFO) method. Inventory items are charged to equipment repairs and operations, and to road construction and maintenance as used.

PRE-PAID EXPENSES

Certain payments to vendors reflect cost applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

CAPITAL ASSETS

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Clare County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the forth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Clare County Road Commission has capitalized the current year's infrastructure, as required by GASB 34, and has reported the infrastructure in the statement of net assets. The Road Commission has retroactively capitalized the major infrastructure assets as of September 30, 2003, as permitted by GASB 34.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004
(CONTINUED)

NOTES A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)

DEPRECIATION

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure-Roads	8 to 30 years
Infrastructure-Bridges	12-50 years

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long term obligations are reported as liabilities in operating fund statement of net assets.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

BUDGETS AND BUDGETARY ACCOUNTING

The County Road Commission follows the requirements of the Uniform Budgeting and Accounting Act, Michigan Public Act 621 of 1978, in the preparation and execution of its general appropriations act. Any violations are disclosed in audits of the County Road Commission financial statements as required by law.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004
(CONTINUED)

NOTE B - CASH AND INVESTMENTS

The balance sheet accounts and types of cash items are presented below:

<u>Balance Sheet Accounts</u>	<u>Amount</u>	<u>Cash Items</u>	<u>Amount</u>
Imprest Cash	\$ 250	Imprest Cash	\$ 250
Cash demand and time deposits	480,333	Savings	480,333
Investments	<u>347,040</u>	Investments	<u>347,040</u>
	<u>\$ 827,623</u>		<u>\$ 827,623</u>

DEPOSITS - At year-end the carrying amount of the County Road Commissions deposits were \$480,333 and the bank balance was \$709,740. According to the Federal Deposit Insurance Corporation, approximately 28% of the total bank balance was covered by federal depository insurance.

INVESTMENTS - Act 217, PA 1982, authorizes the County Treasurer to deposit and invest for the Road Commission in the following:

- (a) bonds and other direct obligations of the United States or its agencies
- (b) certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the national credit union administration that are eligible to be depository of surplus money belonging to the State under section 5 or 6 of Act 105, PA 1855, as amended (MCL 21.145 and 21.146)
- (c) commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase and not more than 50 percent of any fund may be invested in commercial paper at any one time
- (d) United States government or Federal agency obligation repurchase agreements
- (e) bankers' acceptance of United States banks
- (f) mutual funds composed of investments which are legal for direct investments by local units of government in Michigan.

The Road Commission's investments totaling \$347,040 are made up of amounts held by National City Bank's Municipal Investment Fund. These are considered investment pools and are not required to be categorized as to investment risk.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004
(CONTINUED)

NOTE C - CAPITAL ASSETS

The following is a summary of changes in the Capital Assets Account Group.

	<u>Balance</u> <u>10/01/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>09/30/04</u>
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 175,220	\$ -0-	\$ -0-	\$ 175,220
Subtotal	<u>175,220</u>	<u>-0-</u>	<u>-0-</u>	<u>175,220</u>
Capital Assets Being Depreciated:				
Buildings	986,476	-0-	-0-	986,476
Road Equipment	4,962,458	739,041	470,518	5,230,981
Shop Equipment	116,024	5,493	550	120,967
Office Equipment	99,244	21,033	-0-	120,277
Engineers Equipment	24,627	-0-	-0-	24,627
Yard & Storage Equipment	74,487	4,085	-0-	78,572
Infrastructure-Bridges	5,563,031	41,804	-0-	5,604,835
Infrastructure-Roads	<u>27,514,815</u>	<u>2,636,016</u>	<u>-0-</u>	<u>30,150,831</u>
Total	<u>39,341,162</u>	<u>3,447,472</u>	<u>471,068</u>	<u>42,317,566</u>
Less Accumulated Depreciation:				
Buildings	593,955	33,930	-0-	627,885
Road Equipment	4,112,844	410,171	438,430	4,084,585
Shop Equipment	84,450	5,994	550	89,894
Office Equipment	78,482	7,417	-0-	85,899
Engineers Equipment	21,516	760	-0-	22,276
Yard & Storage Equipment	47,872	3,416	-0-	51,288
Infrastructure-Bridges	1,331,190	133,485	-0-	1,464,675
Infrastructure-Roads	<u>9,468,590</u>	<u>1,361,428</u>	<u>-0-</u>	<u>10,830,018</u>
Total	<u>15,738,899</u>	<u>1,956,601</u>	<u>438,980</u>	<u>17,256,520</u>
Net Capital Assets Being Depreciated	<u>23,602,263</u>	<u>1,409,871</u>	<u>32,088</u>	<u>25,061,046</u>
Total Net Capital Assets	<u>\$23,777,483</u>	<u>\$ 1,409,871</u>	<u>\$ 32,088</u>	<u>\$25,236,266</u>

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004
(CONTINUED)

NOTE D - PENSION PLAN

Plan Description - The Clare County Road Commission participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability benefits, on a voluntary basis to the State's local government employees in the most efficient and effective manner possible. As such, MERS is a non-profit entity qualified under section 401(a) of the Internal Revenue Code, which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 49817.

All full time Road Commission employees are eligible to participate in the system. Benefits vest after ten year of service. Employees who retire at or after age 55 with 30 years credited service are entitle to an annual retirement benefit, payable monthly for life, in an amount equal to 2.25 percent of the member's five-year final average compensation. The system also provides death and disability benefits which are established by State Statute.

Participating County Road employees are required to contribute 5.0 percent of their annual salary to the system. The County Road is required to contribute the remaining amounts necessary to fund the Michigan Municipal Employee Retirement System using the actuarial basis specified by statute.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2003. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit and (d) the assumption that benefits will increase 2.5% annually after retirement.

All entries are based on the actuarial methods and assumption that were used in the December 31, 2003 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004
(CONTINUED)

NOTE D - PENSION PLAN (CONTINUED)

GASB 25 INFORMATION (as of 12/31/03)

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 4,273,107
Terminated employees not yet receiving benefits	-0-
Current Employees:	
Accumulated employee contributions including allocated investment income	880,731
Employer financed	<u>2,382,632</u>
Total actuarial accrued liability	7,536,470
Net assets available for benefits, at actuarial value (Market value is \$6,866,074)	<u>7,519,456</u>
Unfunded (over funded) actuarial accrued liability	<u>\$ 17,014</u>

GASB 27 INFORMATION (as of 12/31/03)

Fiscal year beginning	January 1, 2005
Annual required contribution (RC)	\$ 52,644
Amortization factor used - Underfunded Liabilities (30 years)	0.053632
Amortization factor used - Overfunded Liabilities (10 years)	0.119963

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004
(CONTINUED)

NOTE D - PENSION PLAN (CONTINUED)

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2003 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

Annual Pension Cost

<u>Year Ended December 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2001	\$ 14,784	100%	\$ -0-
2002	45,864	100%	-0-
2003	52,644	100%	-0-

Aggregate Accrued Liabilities - Comparative Schedule

<u>Actuarial Valuation Date December 31</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % Of Covered Payroll</u>
2001	\$7,278,942	\$5,891,688	\$(1,387,254)	124%	\$1,296,815	-0-
2002	7,340,240	6,961,821	(378,419)	105%	1,283,058	-0-
2003	7,519,456	7,536,470	17,014	100%	1,234,382	1%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997 and 2000 valuations. The funding method was changed to entry age normal for the 1993 valuation. Adoption of Benefit P-S 50%, B-4 80% maximum reflected in 2002 valuation.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004
(CONTINUED)

NOTE E - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

NOTE F - LONG TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

CHANGES IN LONG TERM DEBT

	Balance 10/1/03	Additions	Reductions	Balance 09/30/04
General obligation bonds payable	\$ 1,820,000	\$ -0-	\$ 390,000	\$ 1,430,000
Installment note payable	122,310	-0-	11,438	110,872
Compensated Absences	136,497	(1) 27,690	-0-	164,187
	<u>\$ 2,078,807</u>	<u>\$ 27,690</u>	<u>\$ 401,438</u>	<u>\$ 1,705,059</u>

(1) The change in compensated absences is shown as a net addition.

The general obligation bonds payable is made up of bonds issued on July 24, 1996, June 1, 1998, September 16, 1999, October 4, 2000, and April 1, 2002 under Act 143 for the purpose of defraying the costs of several road projects. The bonds were issued in denominations of \$5,000 with rates varying from 4.1 to 7.625%. The bonds mature in \$50,000 increments annually over a 10 year period.

The installment notes payable was entered into on July 10, 2002, for the purchase of land. Principal payments of \$20,000 a year are being made with an interest rate of 7% until it is paid off.

Annual Debt Service Requirements:

<u>Year</u>	<u>Amount</u>
2005	\$ 469,049
2006	452,706
2007	386,292
2008	215,235
2009	150,865
2010-2014	<u>86,955</u>
Total Payments	1,761,102
Less Interest & Fees	<u>(220,230)</u>
Net Balance Due	<u>\$1,540,872</u>

CLARE COUNTY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004
(CONTINUED)

NOTE G - VESTED EMPLOYEE BENEFITS

County Road employees, after six months of service, are credited with 8 hours vacation leave per month, and an additional two to seven days based on years of service exceeding four years. Unused vacation leave is carried forward to the next year but leave time in excess of 240 hours is forfeited. Vacation leave for 2004 amounted to \$47,110.

County Road post-1987 employees earn four hours sick leave per month, and pre-1987 employees earn 8 hours a month. All employees are paid annually for accumulated leave in excess of 360 hours. Upon termination, the accumulated sick leave is paid in full. Sick leave for 2004 amounted to \$117,077.

NOTE H - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, section 18 (1), as amended, provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the twelve months ended September 30, 2004 the County Road Commission incurred expenditures in certain areas which were in excess of the amounts appropriated as follows:

<u>Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Primary Road:			
Heavy Maintenance	\$ 1,525,000	\$ 2,032,209	\$ (507,209)
Local Road:			
Maintenance	\$ 1,210,000	\$ 1,691,665	\$ (481,665)
State Trunkline:			
Maintenance	\$ 720,000	\$ 751,660	\$ (31,660)
Non Maintenance	\$ -0-	\$ 53,446	\$ (53,446)
Long Term Debt	\$ 400,000	\$ 401,438	\$ (1,438)

The Road Commission does not use encumbrances for budgetary purposes. During the twelve months ended September 30, 2004, the Road Commissioners made one amendment to the General Operating Fund Budget.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004
(CONTINUED)

NOTE I - RISK MANAGEMENT

Clare County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Clare Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund.

During the twelve months ended September 30, 2004, and the previous two years, there were no settlements which exceeded the respective insurance coverage. In addition, there has been no reduction in insurance coverage from the prior year.

NOTE J - POST EMPLOYMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note D, the Road Commission provides post retirement health care benefits to all employees who retire from the Road Commission on or after attaining age 60 with 10 or more years of service; or, those who retire under a valid disability claim who have reached the age 60. The health care benefits consist of the Road Commission paying the monthly health insurance until the recipient reaches the age of 65. The costs of retirees' health care benefits are recognized as expenditures as claims are paid. For the twelve months ended September 30, 2004, those costs totaled \$65,453.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004
(CONTINUED)

NOTE K - FEDERAL FINANCIAL ASSISTANCE

It is required by the Michigan Department of Transportation that Road Commissioners report total federal financial assistance for Highway Research, Planning and construction pertaining to their County. However, only the federal financial assistance applicable to negotiated account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by the Michigan Department of Transportation.

The federal aid secondary revenue of \$790,508 represents the Department of Transportation Federal Highway grant money expended on public road improvement projects where work was performed by independent contractors paid for and administered by the Michigan Department of Transportation.

REQUIRED SUPPLEMENTAL INFORMATION

CLARE COUNTY ROAD COMMISSION
STATEMENT OF REVENUES AND OTHER FINANCING
SOURCES- BUDGETARY COMPARISON SCHEDULE
TWELVE MONTHS ENDED SEPTEMBER 30, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Michigan Transportation Funds:				
Engineering	\$ 10,000	\$ 10,000	\$ 10,000	\$ -0-
Primary road	2,388,000	2,391,930	2,338,323	(53,607)
Local road	1,115,000	1,115,070	1,635,399	520,329
Snow removal	2,000	2,000	2,433	433
Critical Bridge	<u>266,000</u>	<u>266,000</u>	<u>33,990</u>	<u>(232,010)</u>
Subtotal	<u>3,781,000</u>	<u>3,785,000</u>	<u>4,020,145</u>	<u>235,145</u>
Federal Aid:				
Federal aid secondary	<u>626,000</u>	<u>626,000</u>	<u>790,508</u>	<u>164,508</u>
Subtotal	<u>626,000</u>	<u>626,000</u>	<u>790,508</u>	<u>164,508</u>
State Trunkline Maintenance	720,000	720,000	671,665	(48,335)
State Trunkline Non-Maintenance	-0-	-0-	53,446	53,446
State Forest Road Funds	70,000	70,000	70,392	392
County Raised Funds:				
Township contributions and other contributions	1,500,000	1,513,000	1,037,517	(475,483)
Other Revenue:				
Gain on Sale of Equipment	-0-	-0-	169,888	169,888
Interest, Salvage Sales and Refunds	<u>400,000</u>	<u>122,000</u>	<u>29,427</u>	<u>(92,573)</u>
Total Revenue	<u>\$7,097,000</u>	<u>\$6,836,000</u>	<u>\$6,842,988</u>	<u>\$ 6,988</u>

CLARE COUNTY ROAD COMMISSION
STATEMENT OF EXPENDITURES - BUDGETARY COMPARISON SCHEDULE
TWELVE MONTHS ENDED SEPTEMBER 30, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Primary Road:				
Heavy maintenance	\$ 1,500,000	\$ 1,525,000	\$ 2,032,209	\$ (507,209)
Maintenance	810,000	810,000	708,497	101,503
Local Road:				
Heavy maintenance	1,550,000	1,334,000	645,611	688,389
Maintenance	<u>1,210,000</u>	<u>1,210,000</u>	<u>1,691,665</u>	<u>(481,665)</u>
Subtotal	<u>5,070,000</u>	<u>4,879,000</u>	<u>5,077,982</u>	<u>(198,982)</u>
State Trunkline Maintenance	<u>720,000</u>	<u>720,000</u>	<u>751,660</u>	<u>(31,660)</u>
State Trunkline Non-Maintenance	<u>-0-</u>	<u>-0-</u>	<u>53,446</u>	<u>(53,446)</u>
Equipment Expense - Net:				
Direct	800,000	800,000	874,530	(74,530)
Indirect	400,000	400,000	388,322	11,678
Operating	200,000	200,000	225,710	(25,710)
Less:				
Equipment Rental	<u>(1,300,000)</u>	<u>(1,300,000)</u>	<u>(1,668,843)</u>	<u>368,843</u>
Subtotal	<u>100,000</u>	<u>100,000</u>	<u>(180,281)</u>	<u>280,281</u>
Administrative Expense - Net:				
Administrative expense	400,000	400,000	343,623	56,377
Less:				
Overhead - State trunkline	(70,000)	(70,000)	(69,878)	(122)
Purchase discounts and Handling Charges	<u>(5,000)</u>	<u>(5,000)</u>	<u>(5,301)</u>	<u>301</u>
Subtotal	<u>325,000</u>	<u>325,000</u>	<u>268,444</u>	<u>56,556</u>
Capital Outlay - Net:				
Capital Outlay	692,000	622,000	769,652	(147,652)
Less:				
Equipment Retirements	-0-	-0-	(32,088)	32,088
Depreciation	<u>(300,000)</u>	<u>(300,000)</u>	<u>(461,688)</u>	<u>161,688</u>
Subtotal	<u>392,000</u>	<u>322,000</u>	<u>275,876</u>	<u>46,124</u>
Long Term Debt Payment	<u>400,000</u>	<u>400,000</u>	<u>401,438</u>	<u>(1,438)</u>
Interest Expense	<u>90,000</u>	<u>90,000</u>	<u>89,427</u>	<u>573</u>
Total Expenditures	<u>\$ 7,097,000</u>	<u>\$ 6,836,000</u>	<u>\$ 6,737,992</u>	<u>\$ 98,008</u>

SUPPLEMENTAL SCHEDULES

CLARE COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES OF FUND BALANCES
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2004

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Fund</u>	<u>Totals</u>
Total Revenues and other Financing Sources	\$ 3,874,964	\$ 2,047,913	\$ 920,111	\$6,842,988
Total Expenditures	<u>3,329,151</u>	<u>2,358,272</u>	<u>1,050,569</u>	<u>6,737,992</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures before Optional Transfers	545,813	(310,359)	(130,458)	104,996
Optional Transfers	<u>(310,359)</u>	<u>(149,306)</u>	<u>459,665</u>	<u>-0-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	235,454	(459,665)	329,207	104,996
Fund Balance-October 1	<u>-0-</u>	<u>1,358,640</u>	<u>445,227</u>	<u>1,803,867</u>
Fund Balance-September 30	<u><u>\$ 235,454</u></u>	<u><u>\$ 898,975</u></u>	<u><u>\$ 774,434</u></u>	<u><u>\$1,908,863</u></u>

CLARE COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2004

	Primary Road Fund	Local Road Fund	County Road Fund	Totals
Motor Vehicle Highway Funds:				
Engineering	\$ 5,000	\$ 5,000	\$ -0-	\$ 10,000
Primary road	2,338,323	-0-	-0-	2,338,323
Local road	-0-	1,635,399	-0-	1,635,399
Snow removal	2,433	-0-	-0-	2,433
Critical Bridge	-0-	33,990	-0-	33,990
Subtotal	<u>2,345,756</u>	<u>1,674,389</u>	<u>-0-</u>	<u>4,020,145</u>
Federal Aid:				
Federal Aid Secondary	<u>790,508</u>	<u>-0-</u>	<u>-0-</u>	<u>790,508</u>
Subtotal	<u>790,508</u>	<u>-0-</u>	<u>-0-</u>	<u>790,508</u>
State Trunkline Maintenance	-0-	-0-	671,665	671,665
State Trunkline Non-Maintenance	-0-	-0-	53,446	53,446
State Forest Road Funds	70,392	-0-	-0-	70,392
County Raised Funds:				
Township contributions and other contributions	668,308	369,209	-0-	1,037,517
Other Revenue:				
Gain on Sale of Equipment	-0-	-0-	169,888	169,888
Interest, Salvage Sales				
Refunds	<u>-0-</u>	<u>4,315</u>	<u>25,112</u>	<u>29,427</u>
Total Revenue	<u>\$ 3,874,964</u>	<u>\$ 2,047,913</u>	<u>\$ 920,111</u>	<u>\$ 6,842,988</u>

CLARE COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2004

	Primary Road Fund	Local Road Fund	County Road Fund	Totals
Primary Road:				
Heavy maintenance	\$ 2,032,209	\$ -0-	\$ -0-	\$2,032,209
Maintenance	708,497	-0-	-0-	708,497
Local Road:				
Heavy maintenance	-0-	645,611	-0-	645,611
Maintenance	-0-	1,691,665	-0-	1,691,665
Subtotal	2,740,706	2,337,276	-0-	5,077,982
State Trunkline Maintenance	-0-	-0-	751,660	751,660
State Trunkline Non-Maintenance	-0-	-0-	53,446	53,446
Equipment Expense - Net:				
Direct	229,478	497,521	147,531	874,530
Indirect	101,896	220,917	65,509	388,322
Operating	59,227	128,407	38,076	225,710
Less:				
Equipment Rental	(437,907)	(949,407)	(281,529)	(1,668,843)
Subtotal	(47,306)	(102,562)	(30,413)	(180,281)
Administrative Expense - Net:				
Administrative expense	185,462	158,161	-0-	343,623
Less:				
Overhead - State trunkline	(37,715)	(32,163)	-0-	(69,878)
Purchase discounts and Handling charges	(2,861)	(2,440)	-0-	(5,301)
Subtotal	144,886	123,558	-0-	268,444
Capital Outlay - Net:				
Capital Outlay	-0-	-0-	769,652	769,652
Less:				
Equipment Retirements	-0-	-0-	(32,088)	(32,088)
Depreciation	-0-	-0-	(461,688)	(461,688)
Subtotal	-0-	-0-	275,876	275,876
Long Term Debt Payment	401,438	-0-	-0-	401,438
Interest Expense	89,427	-0-	-0-	89,427
Total Expenditures	\$ 3,329,151	\$ 2,358,272	\$ 1,050,569	\$6,737,992



Anderson & Decker, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

245 Lake Street • P.O. Box 746 • Roscommon, MI 48653
(989) 275-8831

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

January 27, 2005

Board of County Road Commissioners
Clare County Road Commission
Harrison, MI 48625

We have audited the basic financial statements of the Clare County Road Commission as of and for the twelve months ended September 30, 2004, and have issued our report thereon dated January 27, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Clare County Road Commission's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Clare County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Page 2
Board of County Road Commissioners
January 27, 2005

This report is intended solely for the information and use of the Board of County Road Commissioners, management, and the Michigan Department of Transportation, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "J. Anderson".

ANDERSON & DECKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS